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COULD PRICE INCREASES HAVE BEEN AVOIDED WITH  
INDUSTRIAL CONSCRIPTION OR EFFECTIVE  
MACHINERY OF PRIORITY?

Throughout the foregoing analysis of the relation of an expanding volume of funds to price changes during the war we have been endeavoring to ascertain the process by which the price revolution was, in fact, effected. The analysis is therefore based upon the assumption that mobilization was to be effected mainly through the financial mechanism and was thus of relatively tardy accomplishment. For the sake of the analysis involved it may be of interest to some if we now inquire whether prices would necessarily have increased in case we could have had from the very start an effective means of promptly diverting labor and capital to essential war industries. Let us assume the following conditions:

1. A means of instantaneously shifting labor and capital to war lines.
2. A means of enlisting the effective service of labor without increasing wages.
3. A rationing system under which the necessities of life would be distributed strictly in accordance with needs.

Under these circumstances could not the supplies of war materials have been immediately increased sufficiently to prevent a rise in prices incident to the extraordinary war demands?<sup>1</sup> I believe we must conclude that a rise in prices could not have been avoided so long as cost of production was allowed to be a basis for determining selling prices; because the *additional* supplies demanded—both wheat and the raw materials required in the manufacture of war supplies—had to be produced under less favorable circumstances and hence at higher cost. Accordingly, only in the event that prices were fixed at a point which would not yield a return to the marginal producer could a rise in prices have been avoided. But if the prices of essential war materials thus rose it is clear that the costs of production in all plants using such materials would inevitably rise. The effects of this rise would, moreover, prove cumulative upon the final consumer, in all cases involving

<sup>1</sup> It will be noted that the other cause of price advances in war lines, namely, price fixing by the government, was necessary because conscription of industries and labor was not regarded as feasible, and because the priority machinery was not effective until late in the war.

the use of materials needed in the war. But since, by assumption, the wages of men in the industrial army were not allowed to advance—as was the case with the military army—it is apparent that the second great factor that we found operating to increase monetary costs, and hence prices, would be held in abeyance. Under these circumstances the general rise in prices would not have been anywhere nearly so great as under the conditions that in fact obtained during the war.

H. G. M.